

Notes to the Five-Year Forecast (October 2018- FY-19)

The disclaimer must be stated that the five-year forecast is an instrument to identify trends in the financial picture of a school district. As the term “forecast,” indicates it is a projection of what we expect the financial future to be. There are too many unknown factors for this document to be used as certainty. It is based on a number of assumptions, or “educated guesses”. The further into the future the forecast projects, the less certainty there are with districts finances. The numbers will evolve and change as assumptions change or new information becomes available, as in the case of a new state biennium budget. It is however, a valuable tool to identify trends in the financial direction in which a district is moving.

One of the major revenue sources of school funding for any district is the revenue support received from the State, which is known as the “foundation” monies. The foundation formula is based on a number of criteria, one being the property valuation of the district and another being student enrollment for the district. For Tallmadge Schools the foundation monies represents roughly 32% of our general fund operating revenue. The State adopts a bi-ennium budget every two years and determines at what level the State will fund schools thru the foundation support. The State budget (HB 49) was adopted in June of 2017 and revealed the level of funding for FY18 & FY19. For the purpose of this forecast our base year is FY19.

Line 1.010 – General Property Tax (Real Estate)

Calendar year 2017 was a property update year for Summit County. With this update to property valuation, Tallmadge City Schools now has a current property valuation is 422,304,520. Of the current valuation, 82.0% is Class 1 Res/Ag property. The valuation prior to the valuation update was 385,484,110. This increase in property valuation **will not** result in additional revenue for the district due to HB920, which was passed in 1976. The effect of HB920 is that as property values increase due to reappraisal the effective millage on the levies that a district collects is reduced so that the same amount of tax is generated.

Prior history has shown that the district’s growth in new construction property is approx \$3-6 million per year. However, with the economic conditions that currently exists only a ½% increase in our valuation or roughly \$2 million dollars has been forecasted in new construction for each year of the forecast. In addition the city of Tallmadge grants abatements to new commercial construction thru the **Community Reinvestment Area** which limits revenue growth for the district.

Line 1.020 – Tangible Personal Property Tax

The tangible personal property value of the district has been eliminated. HB 66 set into motion the elimination of tangible personal property taxes by tax year 2009. This elimination is complete as the district has lost in excess of \$37 million of taxable valuation, which accounted for roughly \$2.5 million tax dollars. The state **was** reimbursing a portion of lost tax revenue, which is reflected in line 1.050 discussed below. However FY18 is the last year that Tallmadge received any reimbursement for the elimination of tangible personal property tax.

Line 1.035 – Unrestricted Grants-in-Aid

This line includes the State Foundation funding which represents 1/3 of the districts overall general fund revenue. The FY14/15 State budget, HB 59, established a new formula for school funding. This was a helpful change as we had been on the “guarantee” for a number of years with no increase in state funding. Budget bill HB64 for FY16/17 continued that same formula with a few tweaks. The formula increases continued on a lesser scale. However the reduction of **the reimbursement of personal tangible tax** offset the increase in FY16 resulting in no additional state revenue. For FY17 the reduction in reimbursement was greater than the formula increase and resulted in a net loss for Tallmadge schools, in the amount of \$249K. The same held true for FY18 and the loss was \$232K. For FY19 the reimbursement of tangible property tax is completely gone. With the minimal projected increase in foundation \$\$ and the complete elimination of the reimbursement tangible tax, Tallmadge will see another net loss of \$158K of state revenue. Because there is no offset of reimbursement reduction (it is completely gone), for years moving forward a slight 1% increase in foundation has been projected.

Line 1.040 – Restricted Grants in Aid

This line item represents categorical funding line items from the state. They include Career Tech/Adult Ed.

Line 1.050 – Property Tax Allocation

This line item is tied directly to the collection of local real estate taxes in the form of homestead and rollback tax received from the state. The most recent change in this area is the \$25,000 exemption of property value for anyone over 65 years of age. This has resulted in lower local taxes but higher homestead reimbursement. The net effect should not have any impact on overall funding. This line item will remain fairly consistent as the State has passed a new law which eliminates the homestead & rollback exemption from any new levies. These \$\$ will no longer be a credit to the local taxpayer and reimbursed by the state, they will be paid by the taxpayer.

The other significant amount that is included in this line item is the state's reimbursement of the loss on the tangible personal property tax. As mentioned above (line 1.020) but bears repeating, the tax on personal tangible property was eliminated. This was a \$2.5 million revenue stream for Tallmadge Schools. The state established a process for reimbursing districts for lost revenue, but also set in motion a phase out of that reimbursement. The State began a **declining** reimbursement process in FY10 which continued thru FY18. FY19 is the first year that the reimbursement is completely gone. The state has not made up those lost dollars with any other revenue stream.

Line 1.060 – All Other Revenues

This line represents all other revenue sources for the district. They include interest, other district tuition, building rental, employee share of health care premiums, fees & other misc revenue.

Line 3.010 – Personal Services

Tallmadge Schools entered into a 3 year agreement for FY 14, 15 & 16 with both certified and classified unions that included a 4th year, which extended the contracts thru FY 17. The normal step movements on the salary schedules were reinstated along with a 1.5% increase to the base salary schedules in each of the years of the agreement. Moving forward the district has settled with both the certified and classified unions for FY-18 & FY-19. The agreement includes a "restoration" of the 2 frozen steps, 1 in each year of the agreement, and a 1% increase to the base salary schedule. It has also included a revamped salary schedule for the classified staff which adds more steps to closer reflect the schedules of the certified staff. For the years in this forecast beyond FY-19 a 1.5% increase has been projected.

Line 3.020 – Employees Retirement/Insurance Benefits

This line consists of two major components and other minor components. One of the major components is the retirement paid on employee's salaries into the two retirement systems - STRS & SERS. This is calculated at 14% of salaries. This cost will increase/decrease each year at the same rate as the salaries.

The other major component is the healthcare program. The healthcare program has seen many changes over the years always seeking to maximize benefits for the lowest cost possible. We had moved from a self-funded format to a fully funded program. Effective 1/1/15 the District went back to a self-funded format to deliver healthcare to our employees with Medical Mutual serving as the TPA. Currently, the employee share of the healthcare cost is 13%. A 6% increase to health care premiums is projected in each of the years in this forecast.

Other components of this line item are Medicare and the workers comp premium which are a % and tied to the total salaries.

Line 3.030 – Purchased Services

The purchased service line is composed of professional/technical services, property services, building utilities, leases, professional meeting expenses, and other contracted services, such as transportation services from Petermann, and the tuition that is paid for special education or students placed in other districts. A 1% overall increase is built into forecasted years.

Line 3.040 – Supplies & Materials

Supplies and materials consist of all supplies in the district including instructional supplies, teaching aids, & textbooks used in the classroom. Also included are library books & supplies, testing material, office supplies, computer software throughout the district. This category has held steady for a number of years, but for this forecast there is a 5% reduction in the projected cost for supplies and materials as the District continues to tighten the budget.

Line 3.050 – Capital Outlay

The district is constantly upgrading and investing in technology in the classroom, including the one to one program rolled out in the middle school with chrome books, and other areas such as the VOIP updates, and the addition of new servers and switches when needed. There has been a slight decrease in future years in total cost to equipment.

Line 4.30 – Other Objects

Costs included in this line are premiums for liability and property insurance as well as the fees collected by the county auditor and treasurer on tax collections. Other expenses would be dues, membership fees, audit fees, and other miscellaneous costs that the district pays. Most of these fixed costs do not vary much from year to year. There is a 1% increase in these costs projected in each year.